



MEMORANDUM

To: Reporters and Editors
From: Carol Guthrie for Finance Chairman Max Baucus (D-Mont.)
Re: Senate passage of modified military tax legislation

Tonight, the Senate passed by unanimous consent a modified version of H.R. 3997 as approved by the House of Representatives on December 18, 2007. It will be necessary for the House to take up the modified bill in the next session of the 110th Congress. The bill contains all of the provisions in the Baucus-Grassley Defenders of Freedom Tax Relief Act, which was introduced in June of this year and approved by the Senate this month. Below please find a list of modifications made by the Senate today to H.R. 3997, the Heroes' Earnings Assistance and Relief Tax (HEART) Act of 2007.

Two provisions deleted by the House were restored. The first creates a new special enrollment right for reservists formerly covered under TRICARE to opt back into a civilian employer's health insurance plan at any time. The second makes housing financed by low-income housing tax credits (LIHTC) available to low-income service members. This proposal excludes a service member's basic allowance for housing from income when determining income eligibility for LIHTC through 2014. An additional provision in the Senate modification requires a state's governor to designate a need for low-income military housing in specific areas to create eligibility for this income disregard.

A House-added provision treating allowances paid to AmeriCorps, state annuities for the blind, and military cash allowances as earned income for purposes of determining SSI eligibility and benefit amounts was deleted.

A seven-year extension of the exclusion from income of any state or local tax reduction or rebate received by volunteer firefighters or EMS volunteers was deleted, as the Senate included a three-year provision for this benefit in H.R. 3648, the mortgage tax relief bill approved yesterday by the House.

A measure increasing information return penalties, originally slated to offset the cost of the firefighter and EMS volunteer income exclusion that is now in H.R. 3648, was also deleted.

An additional House measure creating special distribution rules for reservists' unused benefits in a health flexible spending account or in a civilian employer's cafeteria plan was retained in the new Senate bill.

A complete list of additional tax benefits from the Baucus-Grassley Defenders of Freedom Tax Relief Act of 2007 follows here:

- A permanent allowance for soldiers to count their non-taxable combat pay when figuring their eligibility for the earned income tax credit, a refundable federal income tax credit that puts cash in the hands of low-income working individuals and families.

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- A tax cut for small businesses when they continue paying some salary to members of the National Guard and Reserve who are called to duty.
- An end to cumbersome rules for reporting of income when companies continue paying some salary to members of the National Guard and Reserve who are called to duty. This makes it easier for reservists to file their taxes and simpler for employers to keep contributing to those employees' retirement plans.
- The ability for active duty troops to withdraw money from retirement plans, and an allowance of two years to replace the funds without tax penalty.
- Extension of a provision that gives retired veterans more time to claim a tax refund on some types of disability benefit payments.
- Authority for the IRS to treat gifts of thanks from states to veterans—such as payments of excess state revenue—as nontaxable gifts.
- A permanent extension of a provision that gives intelligence service employees a longer period of time to meet residency requirements necessary to exclude profits from the sale of their home from capital gains tax, which is often necessary due to frequent deployment. In the legislation passed today, this provision is also extended to members of the Peace Corps.
- The ability for families of reservists killed in the line of duty to collect life insurance and other benefits provided by the civilian employer.
- A permanent allowance for all veterans to use qualified mortgage bonds to purchase their homes. Also, an expansion of the qualified veteran bond revenue program.
- The ability for families of soldiers killed in the line of duty to contribute up to 100 percent of survivor benefits to retirement savings accounts or to education savings accounts.
- Permission for the Social Security Administration and the Veterans' Administration to disclose information with verify low-income status when distributing veteran's benefits.

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The latest version of the military bill is still fully offset. In addition to the provision allowing reservists returning from a tour of duty to opt back into a civilian employer's health insurance plan, the bill makes certain that individuals who relinquish their U.S. citizenship or long-term U.S. residency pay the same Federal taxes for appreciation of assets, such as stocks or bonds, which they would pay if they sold them as U.S. citizens or residents. It also increases the penalty for people who fail to file their tax returns. Increases to penalties to file S-corporation or partnership tax returns are also included.

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